

SOUTH DAKOTA DEVELOPMENT CORPORATION

**FINANCIAL REPORT
(Reviewed)**

DECEMBER 31, 2008 and 2007

SOUTH DAKOTA DEVELOPMENT CORPORATION

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MARTIN L. GUINDON, CPA
AUDITOR GENERAL

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors
South Dakota Development Corporation
Pierre, SD 57501

We have reviewed the accompanying statement of assets, liabilities and fund cash balance of the South Dakota Development Corporation as of December 31, 2008 and 2007, and the related statement of revenue collected, expenses paid and changes in fund cash balance for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the South Dakota Development Corporation.

A review consists principally of inquiries of the South Dakota Development Corporation's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1, these financial statements were prepared using the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the comprehensive basis of accounting stated above.

Management has chosen not to present a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the basic financial statements.

The accompanying supplementary information of the MicroLOAN South Dakota Program is presented for purposes of additional information, and is not a required part of the financial statements of the South Dakota Development Corporation. Such information has been subjected to the review procedures referred to in the second paragraph.

Martin L. Guindon, CPA
Auditor General

May 7, 2009

South Dakota Development Corporation
Statement of Assets, Liabilities and Fund Cash Balance

See Independent Accountant's Report

	South Dakota Development Corporation December 31,	
	2008	2007
Assets:		
Cash	\$ 458,022	\$ 181,658
Certificates of Deposit	299,003	289,354
Loans Receivable	4,625,825	732,906
Investments/SDDC Other	800,000	0
Equipment, Net of Depreciation	0	0
Total Assets	\$ 6,182,850	\$ 1,203,918
Liabilities:		
Loans Payable	\$ 785,824	\$ 732,906
Fund Cash Balance:		
Fund Cash Balance	5,397,026	471,012
Total Liabilities and Fund Cash Balance	\$ 6,182,850	\$ 1,203,918

The notes to the financial statements are an integral part of this statement.

South Dakota Development Corporation
Statement of Revenue Collected, Expenses Paid and Changes in Fund Cash Balance

See Independent Accountant's Report

	South Dakota Development Corporation	
	Years Ended December 31,	
	2008	2007
Revenues:		
Processing Fees	\$ 81,671	\$ 89,326
Origination Fees	3,385	3,062
Servicing Fees	85,197	67,686
504 Escrow Interest	6,801	10,629
Dept of Tourism & State Dev Grants	4,890,000	0
Other Revenue - fee reimburse & adjustment	50	0
Interest Income and Other	41,911	3,739
Interest Earned on CD	12,876	34,901
Total Revenue	<u>5,121,891</u>	<u>209,343</u>
Expenses:		
Legal and Accounting	24,375	31,439
Training Expense	875	7,210
Board Travel and Fees	4,792	5,404
Dues	1,750	3,175
Bank Fees	2,000	1,500
Interest Expense	22,111	23,280
Printing/GOED Conference	0	500
Bad Bebt	9,595	0
Miscellaneous	125,979	61,330
Governor's Office of Economic Development (GOED) Hostings	4,400	5,074
Total Expenses	<u>195,877</u>	<u>138,912</u>
Excess of Revenues Over Expenses	4,926,014	70,431
Fund Cash Balance, Beginning	471,012	400,581
Fund Cash Balance, Ending	<u>\$ 5,397,026</u>	<u>\$ 471,012</u>

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS**

See Independent Accountant's Report

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The South Dakota Development Corporation (SDDC) is organized to further the economic development and social welfare of the State of South Dakota with special emphasis on promoting and assisting the growth and development of business concerns in South Dakota, including small business. The SDDC functions as an administrator to assist in making and servicing Small Business Administration (SBA) 504 loans. The objective is to financially assist business start-ups, relocations and expansions. These objectives are accomplished through the SBA 504 loan program. The SBA 504 program provides loans to for-profit businesses that are engaged in the manufacturing, distributing, retail and service industries. The project must, according to SBA guidelines, promote economic development. The SDDC is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code.

A loan agreement was entered into between the SDDC and Citibank (South Dakota), N.A. on March 11, 1999. The loan from Citibank (South Dakota), N.A. was to be used to implement the MicroLOAN South Dakota program. The MicroLOAN South Dakota program is a part of the SDDC and is reported that way on the financial statements.

On August 1, 2004, a new loan agreement was entered into between the SDDC and the Board of Economic Development (BED). The BED loaned money to SDDC to pay the remaining balance on the loan with Citibank and to fund new loans to small business. The loan agreement with Citibank was terminated in August 2004.

The MicroLOAN South Dakota program was established to provide low interest, gap financing for small businesses for which other types of financing might not be available. The MicroLOAN South Dakota program operates in conjunction with a bank (Originating Bank) that has agreed to provide financing for the applicant's project. As such, the Originating Bank should assist the applicant in preparing the application for filing with the Governor's Office of Economic Development. Financing is accomplished by the Originating Bank making two loans to the applicant, one which conforms to the MicroLOAN South Dakota criteria, the other companion loan must be for at least 50% of the project cost. The Originating Bank will use its loan documents in making the loans and will be responsible for closing and servicing the loans. After closing, the South Dakota Development Corporation will purchase the loan which conforms to the MicroLOAN South Dakota program.

The SDDC Other Loan/Investment Program was used on a case by case basis to assist businesses with projects that do not fit the parameters of other programs within GOED. This program has assisted with working capital needs, inventory needs and technology based projects. Funding is provided by the Department of Tourism and State Development (DTSD). Each deal is unique and requires an award from DTSD for funding.

As of December 31, 2008, 13 projects have been approved for the SDDC Loan Program/Investment Program.

A summary of the South Dakota Development Corporation's significant accounting policies are as follows:

SOUTH DAKOTA DEVELOPMENT CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

See Independent Accountant's Report

Method of Accounting: The financial statements of the South Dakota Development Corporation have been prepared on the modified cash basis method of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when received and expenses are recognized when paid except for capital assets with a cost of \$1,000 or greater which are depreciated over their useful life using the straight line method; therefore, the accompanying financial statements do not present financial position or operation results in accordance with accounting principles generally accepted in the United States of America.

Cash: The cash account is made up of the following:

	2008	2007
	-----	-----
South Dakota Development Corporation		
Cash Account 1	\$ 105,496	\$ 93,538
South Dakota Development Corporation		
Cash Account 2 (SDDC Loan Program)	268,724	
MicroLOAN		
Cash Account	55	
MicroLOAN South Dakota Interest Account	43,504	38,378
MicroLOAN South Dakota Reserve Account	<u>40,243</u>	<u>49,742</u>
 Total	 <u>\$458,022</u>	 <u>\$181,658</u>

MicroLoan South Dakota Charged-off \$7,089 in Principal and \$2,507 in Interest for the Novak Specialty loan (MLF2004-242) in 2008. The MicroLOAN South Dakota Reserve Account was used to pay off the REDI Fund for the amount borrowed and owed on loan # MLF2004-242.

Loans Receivable: The loans receivable balance does not take into account the allowance for doubtful accounts. \$1,000 of this account is due from the MicroLOAN South Dakota program for setup costs.

Investments: This represents investments in 4 South Dakota companies through the SDDC Other Loan/Investment Program and is reported at the cash amount invested.

Loans Payable: This account included \$784,824 for 2008 and \$731,906 for 2007 of funds received from the REDI Fund to repay the loan from Citibank (South Dakota), N.A., and to fund new MicroLOANS.

South Dakota Development Corporation
Statement of Assets, Liabilities and Fund Cash Balance

See Independent Accountant's Report

	MicroLOAN South Dakota December 31,	
	2008	2007
Assets:		
Cash	\$ 83,802	\$ 88,120
Loans Receivable	784,825	731,906
Total Assets	<u>\$ 868,627</u>	<u>\$ 820,026</u>
Liabilities:		
Loans Payable	<u>\$ 785,825</u>	<u>\$ 732,906</u>
Fund Cash Balance:		
Fund Cash Balance	82,802	87,120
Total Liabilities and Fund Cash Balance	<u>\$ 868,627</u>	<u>\$ 820,026</u>

The notes to the financial statements are an integral part of this statement.

South Dakota Development Corporation
Statement of Revenue Collected, Expenses Paid and Changes in Fund Cash Balance

See Independent Accountant's Report

	MicroLOAN South Dakota Years Ended December 31,	
	2008	2007
Revenues:		
Origination Fees	\$ 3,385	\$ 3,062
Interest Income and Other	23,161	3,244
Interest Earned on CD	3,227	22,756
Total Revenue	<u>29,773</u>	<u>29,062</u>
Expenses:		
Board Travel and Fees	112	844
Bank Fees	2,000	1,500
Interest Expense	22,111	23,280
Legal & Accounting	273	0
Bad Debt Expense	9,595	0
Total Expenses	<u>34,091</u>	<u>25,624</u>
Excess of Revenues Over Expenses	(4,318)	3,438
Fund Cash Balance, Beginning	87,120	83,682
Fund Cash Balance, Ending	<u>\$ 82,802</u>	<u>\$ 87,120</u>

The notes to the financial statements are an integral part of this statement.